

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Battle Creek Downtown Development Auth.	County Calhoun
Fiscal Year End 6/30/2007	Opinion Date November 20, 2007	Date Audit Report Submitted to State November 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

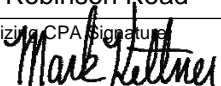
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	Single Letter for the City of Battle Creek		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Mark T. Kettner, CPA, CGFM		License Number 11673

**BATTLE CREEK DOWNTOWN  
DEVELOPMENT AUTHORITY**

**(A Component Unit of the  
City of Battle Creek, Michigan)**

**Battle Creek, Michigan**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**For the Year Ended  
June 30, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

**BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY**  
**(A Component Unit of the**  
**City of Battle Creek, Michigan)**

**TABLE OF CONTENTS**

---

	<u><b>PAGE</b></u>
<b>Independent Auditors' Report</b>	1
<b>Basic Financial Statements for the Year Ended June 30, 2007</b>	
Statement of Net Assets	2
Statement of Activities	3-4
Balance Sheet – Governmental Funds	5
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	9
Statement of Net Assets – Enterprise Fund	10
Statement of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Fund	11
Statement of Cash Flows – Enterprise Fund	12
Notes to Basic Financial Statements	13-21
<b>Supplementary Information</b>	
Continuing Bond Disclosures	22-23

\* \* \* \* \*



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## INDEPENDENT AUDITORS' REPORT

November 20, 2007

Board of Directors  
Battle Creek Downtown Development Authority  
City of Battle Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the ***Battle Creek Downtown Development Authority, a component unit of the City of Battle Creek, Michigan***, as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the ***Battle Creek Downtown Development Authority*** as of June 30, 2007, and the respective changes in its financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The continuing bond disclosures as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Authority. The continuing bond disclosures have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

## **BASIC FINANCIAL STATEMENTS**

**BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY**  
**Statement of Net Assets**  
**June 30, 2007**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and investments	\$ 4,679,897	\$ 185,372	\$ 4,865,269
Investments	-	276,890	276,890
Accounts receivable	265,956	1,006,001	1,271,957
Interest receivable	44,706	4,706	49,412
Loans receivable, net:			
Due within one year	-	23,162	23,162
Due in more than one year	-	469,336	469,336
<b>Total assets</b>	<b>4,990,559</b>	<b>1,965,467</b>	<b>6,956,026</b>
<b>Liabilities</b>			
Account payable and accrued liabilities	38,625	478,917	517,542
Accrued interest payable	242,748	-	242,748
Long-term liabilities -			
Due within one year	49,345,625	-	49,345,625
<b>Total liabilities</b>	<b>49,626,998</b>	<b>478,917</b>	<b>50,105,915</b>
<b>Net assets</b>			
Restricted for debt service	4,000,000	-	4,000,000
Restricted for loan commitments, minority lending and lending activity	-	1,486,550	1,486,550
Unrestricted (deficit)	(48,636,439)	-	(48,636,439)
<b>Total net assets (deficit)</b>	<b>\$ (44,636,439)</b>	<b>\$ 1,486,550</b>	<b>\$ (43,149,889)</b>

The accompanying notes are an integral part of these financial statements.

**BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY**  
**Statement of Activities**  
**For the Year Ended June 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue</u>
<b>Governmental activities:</b>			
Community development	\$ 2,819,169	\$ 1,999	\$ (2,817,170)
Interest on long-term debt	<u>3,193,583</u>	<u>-</u>	<u>(3,193,583)</u>
Total governmental activities	6,012,752	1,999	(6,010,753)
<b>Business-type activities:</b>			
Revolving loans	<u>43,558</u>	<u>68,062</u>	<u>24,504</u>
<b>Totals</b>	<u><u>\$ 6,056,310</u></u>	<u><u>\$ 70,061</u></u>	<u><u>\$ (5,986,249)</u></u>

Continued...

The accompanying notes are an integral part of these financial statements

**BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY**  
**Statement of Activities (Concluded)**  
**For the Year Ended June 30, 2007**

	<u><b>Governmental Activities</b></u>	<u><b>Business-type Activities</b></u>	<u><b>Total</b></u>
<b>Changes in net assets</b>			
Net (expense) revenue	<u>\$ (6,010,753)</u>	<u>\$ 24,504</u>	<u>\$ (5,986,249)</u>
General revenues:			
Property taxes	4,166,620	-	4,166,620
Unrestricted investment earnings	<u>345,663</u>	<u>-</u>	<u>345,663</u>
Total general revenues	<u>4,512,283</u>	<u>-</u>	<u>4,512,283</u>
Change in net assets	(1,498,470)	24,504	(1,473,966)
Net assets (deficit), beginning of year	<u>(43,137,969)</u>	<u>1,462,046</u>	<u>(41,675,923)</u>
<b>Net assets (deficit), end of year</b>	<u><u>\$ (44,636,439)</u></u>	<u><u>\$ 1,486,550</u></u>	<u><u>\$ (43,149,889)</u></u>

The accompanying notes are an integral part of these financial statements.



**BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

	<u>General</u>	<u>Pipeline Bonds Debt Service</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Pooled cash and investments	\$ 4,398,524	\$ 281,373	\$ 4,679,897
Accounts receivable	265,956	-	265,956
Interest receivable	44,706	-	44,706
<b>Total assets</b>	<u><u>\$ 4,709,186</u></u>	<u><u>\$ 281,373</u></u>	<u><u>\$ 4,990,559</u></u>
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 38,625	\$ 38,625
Accrued interest payable	-	242,748	242,748
<b>Total liabilities</b>	<u>-</u>	<u>281,373</u>	<u>281,373</u>
<b>Fund balances</b>			
Reserved for debt service	4,000,000	-	4,000,000
Unreserved, undesignated	709,186	-	709,186
<b>Total fund balances</b>	<u>4,709,186</u>	<u>-</u>	<u>4,709,186</u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 4,709,186</u></u>	<u><u>\$ 281,373</u></u>	<u><u>\$ 4,990,559</u></u>

The accompanying notes are an integral part of these financial statements.

**BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2007**

<b>Fund balances - total governmental funds</b>	<b>\$ 4,709,186</b>
---	---------------------

Amounts reported for governmental activities in the statement of net assets  
are different because:

Certain liabilities, such as bonds payable, are not due and payable in the  
current period and therefore are not reported in the funds.

Deduct - bonds payable	(53,790,000)
Add - unamortized bond issuance costs	1,102,777
Add - unamortized deferred loss on refunding	<u>3,341,598</u>

<b>Net assets (deficit) of governmental activitie</b>	<b><u><u>\$ (44,636,439)</u></u></b>
---	--------------------------------------

The accompanying notes are an integral part of these financial statements.

**BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

	<u>General</u>	<u>Pipeline Bonds Debt Service</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Property taxes	\$ 4,166,620	\$ -	\$ 4,166,620
Interest	343,615	2,048	345,663
Other	1,999	-	1,999
	<u>4,512,234</u>	<u>2,048</u>	<u>4,514,282</u>
Total revenues			
<b>Expenditures</b>			
Community development	2,819,169	-	2,819,169
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	2,851,708	2,851,708
	<u>2,819,169</u>	<u>2,851,708</u>	<u>5,670,877</u>
Total expenditures			
Revenue over (under) expenditures	<u>1,693,065</u>	<u>(2,849,660)</u>	<u>(1,156,595)</u>
<b>Other financing sources (uses)</b>			
Transfers in	-	2,849,660	2,849,660
Transfers out	(2,849,660)	-	(2,849,660)
	<u>(2,849,660)</u>	<u>2,849,660</u>	<u>-</u>
Total other financing sources (uses)			
Net change in fund balances	(1,156,595)	-	(1,156,595)
Fund balances, beginning of year	<u>5,865,781</u>	<u>-</u>	<u>5,865,781</u>
<b>Fund balances, end of year</b>	<u><u>\$ 4,709,186</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,709,186</u></u>

The accompanying notes are an integral part of these financial statements.

**BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2007**

<b>Net change in fund balances - total governmental funds</b>	<b>\$ (1,156,595)</b>
---	-----------------------

Amounts reported for governmental activities in the statement of activities  
are different because:

Bond proceeds provide current financial resources to governmental funds in the period  
issued, but issuing bonds increases long-term liabilities in the statement of net assets.  
Repayment of bond principal is an expenditure in the governmental funds, but the  
repayment reduces long-term liabilities in the statement of net assets.

Less - amortization of bond issuance costs and deferred loss on refunding	<u>(341,875)</u>
---	------------------

<b>Change in net assets of governmental activities</b>	<b><u><u>\$ (1,498,470)</u></u></b>
--	-------------------------------------

The accompanying notes are an integral part of these financial statements.

**BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2007**

	<b>Budget</b>			<b>Actual</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Over (Under) Final Budget</b>
<b>Revenues</b>				
Property taxes	\$ 4,145,502	\$ 4,145,502	\$ 4,166,620	\$ 21,118
Interest	100,000	175,000	343,615	168,615
Other	-	-	1,999	1,999
Total revenues	4,245,502	4,320,502	4,512,234	191,732
<b>Expenditures</b>				
Community development	2,359,761	2,837,512	2,819,169	(18,343)
Revenues over expenditures	1,885,741	1,482,990	1,693,065	210,075
<b>Other financing uses</b>				
Transfers out	(1,852,085)	(1,852,085)	(2,849,660)	(997,575)
Net change in fund balance	33,656	(369,095)	(1,156,595)	(787,500)
Fund balance, beginning of year	5,865,781	5,865,781	5,865,781	-
<b>Fund balance, end of year</b>	<b>\$ 5,899,437</b>	<b>\$ 5,496,686</b>	<b>\$ 4,709,186</b>	<b>\$ (787,500)</b>

The accompanying notes are an integral part of these financial statements.

# **BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY**

## **Statement of Net Assets Revolving Loan Enterprise Fund June 30, 2007**

### **Assets**

Cash and cash equivalents	\$ 185,372
Investments	276,890
Accounts receivable	1,006,001
Interest receivable	4,706
Loans receivable, net:	
Due within one year	23,162
Due in more than one year	<u>469,336</u>

<b>Total assets</b>	<b>1,965,467</b>
---------------------	------------------

### **Liabilities**

Accounts payable	<u>478,917</u>
------------------	----------------

### **Net assets**

Restricted for loan commitments, minority lending and other lending activity	<u><u>\$ 1,486,550</u></u>
---	----------------------------

The accompanying notes are an integral part of these financial statements.

# **BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY**

## **Statement of Revenues, Expenses and Changes in Fund Net Assets - Enterprise Fund For the Year Ended June 30, 2007**

<b>Operating revenue</b>	
Charges for services	<u>\$ 49,744</u>
<b>Operating expenses</b>	
Professional services	34,358
Loan loss provision	<u>9,200</u>
Total operating expenses	<u>43,558</u>
Operating income	6,186
<b>Non-operating revenue</b>	
Investment earnings	<u>18,318</u>
Change in net assets	24,504
Net assets, beginning of year	<u>1,462,046</u>
<b>Net assets, end of year</b>	<u><u>\$ 1,486,550</u></u>

The accompanying notes are an integral part of these financial statements.

# BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

## Statement of Cash Flows

### Enterprise Fund

For the Year Ended June 30, 2007

#### Cash flows from operating activities

Loans collected from borrowers	\$ 188,989
Interest and fees on loans	54,034
Loans made to borrowers	(190,407)
Administrative and other expenses paid	<u>(34,355)</u>

Net cash provided by operating activities	<u>18,261</u>
---	---------------

#### Cash flows from investing activities

Purchase of investments	(34,867)
Proceeds from sales and redemption of investments	21,204
Investment income received	<u>18,318</u>

Net cash provided by investing activities	<u>4,655</u>
---	--------------

Net increase in cash and cash equivalents	22,916
---	--------

Cash and cash equivalents, beginning of year	<u>162,456</u>
--	----------------

Cash and cash equivalents, end of year	<u><u>\$ 185,372</u></u>
--	--------------------------

#### Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 6,186
Adjustments to reconcile operating income to net cash from operating activities:	
Changes in assets and liabilities:	
Loans receivable	7,408
Accounts receivable	3,527
Accrued interest receivable	763
Accounts payable	<u>377</u>

Net cash provided by operating activities	<u><u>\$ 18,261</u></u>
---	-------------------------

The accompanying notes are an integral part of these financial statements.



# BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Basic Financial Statements

---

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity** – These financial statements present the activities of the Battle Creek Downtown Development Authority (the “Authority”). The Authority was established March 6, 1979 pursuant to Public Act 197 of 1975. The primary purpose of the Authority is to revitalize and encourage economic activity in the downtown business district. The Authority’s activities are primarily funded through tax increment financing, bonded debt and revolving loans.

The Authority is a component unit of the City of Battle Creek, Michigan (the “City”) because the City appoints the Authority’s Board of Directors, it has the ability to significantly influence the Authority’s operations and it is financially accountable for the Authority as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Authority is presented as a discrete component unit in the City’s financial statements and is an integral part of that reporting entity.

**Government-wide and Fund Financial Statements** – The statements of net assets and activities display information about the financial activities of the Authority. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the Authority’s *governmental* and *business-type activities*. Governmental activities generally are financed through taxes and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for revolving loans.

The statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the Authority and for each function of the Authority’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation** – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

# BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Basic Financial Statements

---

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes and interest are considered to be susceptible to accrual. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The Authority reports the following major governmental funds:

- General fund
- Pipeline bonds debt service fund

The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *debt service fund* accounts for the accumulation of resources for, and the payment of, interest and principal on bonded debt.

The *revolving loan enterprise fund* (major enterprise fund) is used to account for loans made to local businesses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector standards.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

**Capital Assets** – The Authority has no capital assets for which it holds legal ownership. Infrastructure assets (e.g., roads, bridges, curbs, sidewalks, storm sewers and similar items), along with water and wastewater subsystems constructed by the Authority, are not recorded as the Authority's capital assets, even though the Authority may be obligated to repay the debt issued to finance the related projects. Such capital assets become the property of the City when they are placed into service and, accordingly, are reported in the City's capital assets.

# BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Basic Financial Statements

---

***Long-term Obligations*** – In the government-wide financial statements, long-term debt is reported as a liability. Bond discounts, as well as issuance costs, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Budgetary Information*** – The general fund is under formal budgetary control and its budget is prepared on the same modified accrual basis used to reflect actual results. The Authority follows the City budget process in establishing the budgetary data reflected in the financial statements:

- The Authority submits a proposed budget to the City Manager. After review and approval, the City Manager submits a recommended operating budget to the City Commission. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year for the Authority's funds.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments were not material in relation to the original appropriations.

Transfers out exceed budgetary appropriations by \$997,575.

## 2. CASH AND INVESTMENTS

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and deposits in the City's cash and investment pool.

State statutes authorize the Authority to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments. The Authority and City's investment policies follow the State's guidelines.

# BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Basic Financial Statements

---

At year-end, the carrying amount of the Authority's deposits in the City's internal cash management pool was \$4,679,897. Because it is infeasible to allocate risk to individual component units or pool participants, aggregate cash and investment categorizations are presented in the City's basic financial statements.

The Authority's remaining deposits and investments, which are entirely recorded in the Revolving Loan Fund (business-type activity), include the following:

Deposits	\$ 185,372
Investments	<u>276,890</u>
<b>Total</b>	<b><u>\$ 462,262</u></b>

### **Deposits**

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$185,372. Of that amount, \$85,372 was uninsured and uncollateralized.

### **Investments**

At year end, the Revolving Loan Fund's investment balances were as follows:

	<b><u>Fair Value</u></b>
U.S. treasuries	\$ 100,133
U.S. agencies	133,619
Money market funds	<u>43,138</u>
<b>Total investments</b>	<b><u>\$ 276,890</u></b>

*Credit Risk.* All of the investments in debt securities of U.S. agencies are rated AAA by both Moody's Investor Service and Standard & Poor's. The money market funds were rated AAA by both Moody's and Standard & Poor's.

*Custodial Credit Risk.* For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Revolving Loan Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although uninsured and unregistered, the Revolving Loan Fund investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the fund's name.

# BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Basic Financial Statements

*Concentration of Credit Risk.* At June 30, 2007, the investment portfolio of U.S. agencies was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
U.S. agencies	Federal Farm Credit Bank	63.2%
	Federal Home Loan Bank	36.8%

*Interest Rate Risk.* As of June 30, 2007, maturities of the Revolving Loan Fund investments in debt securities were as follows:

		<u>Investment Maturities (Fair Value by Years)</u>	
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>
U.S. treasuries	\$ 100,133	\$ 100,133	\$ -
U.S. agencies	133,619	98,892	34,727
	<u>\$ 233,752</u>	<u>\$ 199,025</u>	<u>\$ 34,727</u>

None of the U.S. agencies securities are callable.

### 3. LOANS RECEIVABLE

The details of loans receivable outstanding as of June 30, 2007 are as follows:

Total loans outstanding	\$ 631,298
Less allowance for loan losses	<u>(138,800)</u>
<b>Net loans outstanding</b>	<b><u>\$ 492,498</u></b>

Of this amount, \$23,162 is expected to be collected within one year.

# BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Basic Financial Statements

### 4. LONG-TERM DEBT

Following is a summary of the Authority's debt outstanding as of June 30, 2007:

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Outstanding Principal</u>
<b>Taxable Adjustable Rate Revenue Bonds</b>			
2004 Development Refunding	Variable	05/01/08	<u><b>\$ 53,790,000</b></u>

In addition to the above obligation, the Authority has committed to contribute toward the repayment of two City of Battle Creek bond issues. Although not contractually obligated, the Authority intends to pay debt service on these obligations inasmuch as the projects financed by these bonds are within the boundaries of the Downtown Development Authority district. The Authority's share of the outstanding principal on these bonds as of June 30, 2007, was \$2,323,988, with interest rates ranging from 2.75% to 5.125%, and maturing through 2012.

Annual debt service requirements to maturity for the Authority's debt, including the City of Battle Creek bond issues that the Authority intends to service, are as follows:

<u>Year Ending June 30,</u>	<u>Authority Obligation</u>		<u>City Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$53,790,000	\$ 2,438,872	\$ 425,927	\$ 200,189
2009	-	-	449,795	180,727
2010	-	-	473,577	158,682
2011	-	-	500,829	136,211
2012	-	-	473,860	112,292
<b>Total</b>	<u><b>\$53,790,000</b></u>	<u><b>\$ 2,438,872</b></u>	<u><b>\$ 2,323,988</b></u>	<u><b>\$ 788,101</b></u>

**Defeased Debt.** In prior years, the City and DDA defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds, which will be called on May 1, 2008. Accordingly, the trust account assets and the liability for the defeased bonds are not included in accompanying financial statements. At June 30, 2007, the outstanding defeased bonds amounted to \$39,880,000.

# BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Basic Financial Statements

---

**Interest Rate Swap.** During fiscal 2005, the City/DDA entered into a forward starting interest rate swap agreement (the “Swap”) to modify interest rates on future outstanding debt. Beginning May 1, 2008, the Swap will be used to hedge \$55,265,000 of the Downtown Development Taxable Adjustable Rate Refunding Bonds, Series 2004. The stated maturity date of the Swap is May 1, 2022.

Under the terms of the Swap, the City/DDA will owe interest calculated at a fixed rate of 4.598% to the counterparty to the agreement, Goldman Sachs. In return, the counterparty will owe the City/DDA interest based on a variable rate equal to the Bond Market Association (BMA) index rate. Only the net difference in interest amounts will actually be exchanged between the parties. The City/DDA will continue to pay interest to the bondholders at the variable rate provided by the Bonds and, during the term of the Swap, will pay the difference between the fixed rate on the Swap and the BMA index rate.

To further hedge its position, the City/DDA purchased an interest rate cap and floor policy from Merrill Lynch Capital Services to protect against significant fluctuations in market interest rates.

With the issuance of forward delivery bonds, as described below, the Swap will be terminated prior to its actually taking effect.

**Forward Delivery Bonds.** The City/DDA expects to issue and deliver \$53,285,000 of Downtown Development Refunding Bonds, Series 2008 Limited Tax General Obligation (the “Series 2008 Bonds”) on or about February 13, 2008. The City/DDA anticipates that the Series 2008 Bonds will bear interest from their date of delivery and be payable beginning on November 1, 2008 and semiannually thereafter each May 1 and November 1. A portion of the proceeds of the Series 2008 Bonds will be deposited into a redemption account held by the escrow account to legally defease the Downtown Development Taxable Adjustable Rate Refunding Bonds, Series 2004. Issuance and delivery of the Series 2008 Bonds will be dependent upon the receipt of the opinion of Bond Counsel and certain other documents required by the Forward Delivery Bond Purchase Agreement dated August 9, 2007 (the “Purchase Agreement”). In addition, satisfaction of certain other conditions is required, including issuance by Ambac Assurance Corporation of the bond insurance policy with respect to the Series 2008 Bonds and payment of the purchase price by the underwriters of the Series 2008 Bonds in accordance with the Purchase Agreement. It is also expected that a portion of the proceeds of the Series 2008 Bonds will be used for the payment of fees to terminate the aforementioned Swap.

# BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Basic Financial Statements

The City/DDA assumes various risks associated with the Series 2008 Bonds. For instance, the Bond Counsel could be prevented from rendering its opinions with respect to the Series 2008 Bonds as a result of changes or proposed changes in federal or state laws; court decisions; regulations, proposed regulations or rulings of administrative agencies; litigation which may be threatened or filed affecting the issuance of security for the bonds; or the failure of the City/DDA to provide satisfactory closing documents. No assurance can be given that, on the issuance date of the Series 2008 Bonds, the rating assigned to the Series 2008 Bonds will be the same as the ratings currently assigned to the Series 2008 Bonds. The underwriters may terminate their obligations under the Purchase Agreement, without any liability, if at any time prior to the issuance date of the Series 2008 bonds any of a number of events occur which materially and adversely affect the market price or marketability of the Series 2008 Bonds or the ability of the underwriters to enforce contracts for sale of the Series 2008 Bonds.

**Changes in Long-Term Debt.** Long-term liability activity for the year ended June 30, 2007, is as follows:

	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b><u>Ending Balance</u></b>	<b><u>Due Within One Year</u></b>
Adjustable rate refunding	\$53,790,000	\$ -	\$ -	\$53,790,000	\$53,790,000
Add (deduct) deferred amounts:					
For issuance costs	(1,187,606)	-	84,829	(1,102,777)	(1,102,777)
On refunding	<u>(3,598,644)</u>	<u>-</u>	<u>257,046</u>	<u>(3,341,598)</u>	<u>(3,341,598)</u>
	<b><u>\$49,003,750</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 341,875</u></b>	<b><u>\$49,345,625</u></b>	<b><u>\$49,345,625</u></b>

## 5. PROPERTY TAXES

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing district. The City bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by Calhoun County. Property tax revenue is recognized when levied in the government-wide financial statements and in the fund financial statements to the extent that it results in current receivables.



# BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

## Notes To Basic Financial Statements

---

Except for property taxes captured from local schools that exceed contractual obligations, the Authority is entitled to all taxes levied on property within the Downtown Development Authority district to the extent that the current taxable value exceeds the base year taxable value. The base year of initial properties was 1979, the inception date of the Authority. The base year on other properties is determined by the date of entry into the district; the Authority district was expanded in 1985, 1987 and 1993, and was reduced in 2000. The taxable values for the 2006 levy are summarized below:

	<u>Base Year</u>	<u>Increment</u>	<u>Total</u>
Real property	\$ 59,161,585	\$ 68,726,084	\$ 127,887,669
Personal property	47,204,928	109,028,756	156,233,684
P.A. 255 property	955,425	(955,425)	-
P.A. 198 property	27,103,800	11,655,920	38,759,720
P.A. 189 property	306,470	606,431	912,901
P.A. 147 property	-	31,242	31,242

\* \* \* \* \*

## **SUPPLEMENTARY INFORMATION**

**BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY**  
**Continuing Bond Disclosures (Unaudited)**

**1. State Equalized Value (SEV) and Taxable Value (TV) of Ad Valorem Tax Roll**

Assessed Value as of December 31	Year of Tax Levy	Fiscal Year Ended June 30	Ad Valorem SEV		Ad Valorem TV	
			Amount	% Change	Amount	% Change
2005	2006	2007	\$ 301,572,694	3.69%	\$ 284,121,353	3.51%
2004	2005	2006	290,842,381	-3.81%	274,494,992	-4.26%
2003	2004	2005	302,371,276	0.56%	286,708,140	0.20%
2002	2003	2004	300,679,010	14.03%	286,125,661	13.76%
2001	2002	2003	263,688,054	-2.40%	251,509,977	-2.48%
2000	2001	2002	270,159,327	8.99%	257,903,342	12.40%
1999	2000	2001	247,870,250	-8.74%	229,459,885	-13.66%
1998	1999	2000	271,594,550	14.64%	265,771,050	14.11%
1997	1998	1999	236,918,025	-2.24%	232,905,000	-2.84%
1996	1997	1998	242,345,100	9.39%	239,723,350	8.97%

**2. Taxable Value (TV) of Ad Valorem Tax Roll by Use**

Fiscal Year Ended June 30	Homestead			Non-Homestead				Total
	Residential	Agriculture	Commercial	Residential	Agriculture	Commercial	Industrial	
2007	\$ 9,029,803	\$ -	\$ 333,469	\$ 6,672,684	\$ -	\$ 67,903,175	\$ 200,182,222	\$ 284,121,353
2006	9,018,219	76,412	342,696	5,864,652	-	68,556,358	190,636,655	274,494,992
2005	8,864,820	76,412	342,827	5,350,551	-	71,985,512	200,106,018	286,726,140
2004	8,392,465	74,695	281,374	5,359,009	-	68,483,541	203,534,577	286,125,661
2003	7,883,617	73,592	237,619	5,153,765	-	66,149,317	172,012,067	251,509,977
2002	7,362,058	71,311	269,052	4,738,687	-	68,358,646	177,103,588	257,903,342
2001	6,953,534	-	-	4,512,716	69,100	65,049,350	152,875,185	229,459,885
2000	6,953,534	-	-	4,133,866	124,100	58,701,700	195,857,850	265,771,050
1999	6,423,899	-	-	4,602,723	66,750	56,741,378	165,070,250	232,905,000
1998	6,155,984	-	-	4,348,616	65,000	51,701,650	177,452,100	239,723,350

**3. Taxable Value (TV) of Ad Valorem Tax Roll by Class**

Fiscal Year Ended June 30			
	Real	Personal	Total
2007	\$ 127,887,669	\$ 156,233,684	\$ 284,121,353
2006	127,840,001	146,654,991	274,494,992
2005	128,572,054	158,136,086	286,708,140
2004	126,908,701	159,216,960	286,125,661
2003	112,590,677	138,919,300	251,509,977
2002	112,268,742	145,634,600	257,903,342
2001	97,508,785	131,951,100	229,459,885
2000	103,120,900	162,650,150	265,771,050
1999	89,277,600	143,627,400	232,905,000
1998	86,575,550	153,147,800	239,723,350

**4. Taxable Value (TV) of the Industrial Facilities Tax Roll by Class**

Fiscal Year Ended June 30			
	Real	Personal	Total
2007	\$ 15,083,781	\$ 23,675,939	\$ 38,759,720
2006	15,700,842	31,458,252	47,159,094
2005	14,766,215	29,029,847	43,796,062
2004	14,192,322	23,798,132	37,990,454
2003	21,376,963	53,450,900	74,827,863
2002	21,437,436	57,760,000	79,197,436
2001	32,852,600	83,652,400	116,505,000
2000	57,015,950	129,337,200	186,353,150
1999	74,460,175	141,754,300	216,214,475
1998	69,725,825	129,625,600	199,351,425

**BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY**  
**Continuing Bond Disclosures (Unaudited)**

**5. Property Tax Collections**

Fiscal Year Ended June 30		Taxes Levied	Collections to March 1	% Collected
2007	(1)	\$ 4,095,472	\$ 4,052,317	98.95%
2006		3,880,299	3,366,709	86.76%
2005		6,876,297	6,802,014	98.92%
2004		6,364,212	6,364,212	100.00%
2003		6,068,878	6,053,257	99.74%
2002		6,434,645	6,415,791	99.71%
2001		6,703,618	6,638,605	99.03%
2000		7,470,631	7,446,748	99.68%
1999		8,166,905	7,896,259	96.69%
1998		8,295,052	8,269,905	99.70%

(1) Levied and collected amounts are lower than prior year because of agricultural renaissance zone abatements.

**6. Captured Property Tax Rates**  
(per \$1,000 of value)

Fiscal Year Ended June 30	(1) City	(2) Schools	(1) State Education Tax	(3) County	Willard Library
2007	14.4760	18.0000	6.0000	5.3779	-
2006	13.9210	18.0000	6.0000	5.3744	-
2005	13.0000	18.0000	6.0000	5.3744	2.00
2004	13.0000	18.0000	5.0000	5.3744	-
2003	13.0000	18.0000	6.0000	-	-
2002	13.0000	18.0000	6.0000	-	-
2001	13.0000	18.0000	6.0000	-	-
2000	12.5970	18.0000	6.0000	-	-
1999	12.7290	18.0000	6.0000	-	-
1998	12.8840	18.0000	6.0000	-	-

(1) Levied on homestead and non-homestead properties.

(2) Levied on non-homestead properties only.

(3) Beginning in fiscal year 2003, the DDA captures 100% of the tax increment in excess of the 2003 taxable value.

**7. Taxable Value of Twenty Largest Ad Valorem Taxpayers**  
(Fiscal Year Ended June 30, 2007)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Kellogg Company	Breakfast foods	\$ 122,693,540	43.18%
2 Kraft Foods Inc.	Breakfast foods	43,669,684	15.37%
3 Ralcorp Holdings Inc.	Breakfast foods	16,033,230	5.64%
4 Semco Energy Inc.	Natural gas utility	10,473,271	3.69%
5 Cello-Foil Products Inc.	Packaging	4,264,462	1.50%
6 North Pointe Woods	Office building	3,963,185	1.39%
7 Behnke Warehousing Inc.	Warehousing	2,935,881	1.03%
8 Graham Group, The	Medical office building	2,383,732	0.84%
9 BC Equities LTD	Office building	1,908,665	0.67%
10 Consumers Energy Co.	Electric utility	1,737,009	0.61%
11 Somerset Capital Group LTD	Leased equipment	1,725,814	0.61%
12 Federated Publication	Newspaper	1,700,118	0.60%
13 Lake Jackson Realty LLC	Office building	1,534,201	0.54%
14 LsSalle Bank Midwest N A	Banking services	1,147,619	0.40%
15 LHS LLC	Hotel	1,047,896	0.37%
16 WAG-BC LLC	Retail store	963,375	0.34%
17 Champion Ford	Auto dealer	843,528	0.30%
18 BC Tower LLC	Office building	825,426	0.29%
19 Heritage Chevrolet Inc.	Auto dealer	809,170	0.28%
20 CIT Communications Finance Corp	Leased equipment	774,809	0.27%
		<u>\$ 221,434,615</u>	<u>77.92%</u>

**8. Taxable Value of Four Largest IFT Taxpayers**  
(Fiscal Year Ended June 30, 2007)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Kellogg Company	Breakfast foods	\$ 21,670,375	55.91%
2 Kraft Foods Inc.	Breakfast foods	14,114,365	36.42%
3 Cello-Foil Products Inc.	Packaging	2,024,566	5.22%
4 Franklin Iron & Metal	Process scrap metal	103,500	0.27%
		<u>\$ 37,912,806</u>	<u>97.82%</u>